

Chapter 3

Tracking Revenue

Objectives

After completing this chapter, you should be able to:

- Process customer returns and credits (page 73)
- Write off customer *Invoices* (record bad debts) (page 77)
- Create customer *Statements* (page 80)
- Collect sales tax (page 81)
- Create sales reports (page 88)

Restore this File

This chapter uses Revenue-12.QBW. To open this file, restore the Revenue-12.QBM file to your hard disk. See page 8 for instructions on restoring files. If you are using QuickBooks Premier Accountant, we recommend that you toggle to QuickBooks Premier General Business as described on page x.

In the last chapter, you learned about sales forms and the accounts receivable process. In this chapter, you will learn how QuickBooks can help you record customer returns and refunds, create customer *Statements*, and process sales reports. The sales reports show details of each sale, or you can see summaries of sales by customer, job, sales rep, class, or item.

Recording Customer Returns and Credits

To record customer returns or credits, use QuickBooks *Credit Memos*. *Credit Memos* can be used in the following situations:

- To record the cancellation of an order that has already been invoiced.
- To record a return of merchandise from a customer.
- To record a credit-on-account for a customer.
- To record the first step of making a refund to a customer.

Key Term:

Credit Memos are sales forms that reduce the amount owed to your company by a customer.

The accounting behind the scenes:

Credit Memos reduce (credit) Accounts Receivable and reduce (debit) Income and, in some cases, Sales Tax Payable.

When you create a *Credit Memo* in QuickBooks, you must apply the credit to one or more *Invoices*, or use it to give a refund to the customer.

Refunding Customers

There are several situations when you may need to issue a refund to a customer:

1. When a customer pays for merchandise and then returns the merchandise.
2. When a customer requests a discount or refund on merchandise or services for which she has already paid.
3. When a customer overpays an *Invoice* and requests a refund.

If the customer paid with cash or check, you should issue a refund check. If the customer paid with a credit card, you should credit the customer's credit card.

COMPUTER PRACTICE

The first step in issuing a customer refund is to create a *Credit Memo* showing the detail of what is being refunded. Typically, the detail will include the products and/or services returned or discounted.

Bob Mason paid for but didn't use one hour of a photo session. In this exercise, you will create a *Credit Memo* directly from an *Invoice*. This has the advantage of including the details of the *Invoice* in the *Credit Memo*. Later, you will see other ways to create a *Credit Memo*, such as directly from the *Home* page.

- Step 1. Click **Customers** in the *Icon* bar to open the *Customer Center*.
- Step 2. Select **Mason, Bob** from the *Customer Center* list.
- Step 3. If necessary, choose **All** from the *Date* field in the list of transactions in the *Customer Center*. From the list of transactions displayed, double click on Invoice #2015-106. This will open the *Invoice*.

The screenshot shows the 'Customer Center' window for 'Mason, Bob'. The window has a menu bar with 'New Customer & Job', 'New Transactions', 'Print', 'Excel', 'Word', and 'Collections Center'. Below the menu bar are tabs for 'Customers & Jobs' and 'Transactions'. The 'Customers & Jobs' tab is active, showing a list of customers with columns for Name, Balance Total, and Attach. 'Mason, Bob' is selected, showing a balance of 776.47. To the right of the list is a 'Customer Information' section with fields for Customer Name, Contact, Customer Type, Company Name, Billing Address, and Billing Address. Below this is a 'Notes' section with an 'Edit Notes...' button. To the right of the 'Customer Information' section is a 'Reports for this Customer' section with links for 'QuickReport', 'Open Balance', 'Show Estimates', and 'Customer Snapshot'. Below the 'Customer Information' section is a 'Show' section with a dropdown for 'All Transa...', a 'Filter By' dropdown set to 'All', and a 'Date' dropdown set to 'All'. Below the 'Show' section is a table of transactions with columns for Type, Num, Date, Account, and Amount.

Type	Num	Date	Account	Amount
Payment	5256	01/27/2015	12000 - Undeposited Funds	401.39
Payment	5254	01/27/2015	12000 - Undeposited Funds	244.54
Invoice	2015-104	01/09/2015	11000 - Accounts Receivable	776.47
Invoice	3947	12/18/2014	11000 - Accounts Receivable	401.39

Figure 3-1 Opening Invoice from Customer Center

- Step 4. Click the **Create** button at the top of the *Create Invoices* window and choose **Create Credit Memo for this Invoice** from the drop down menu.

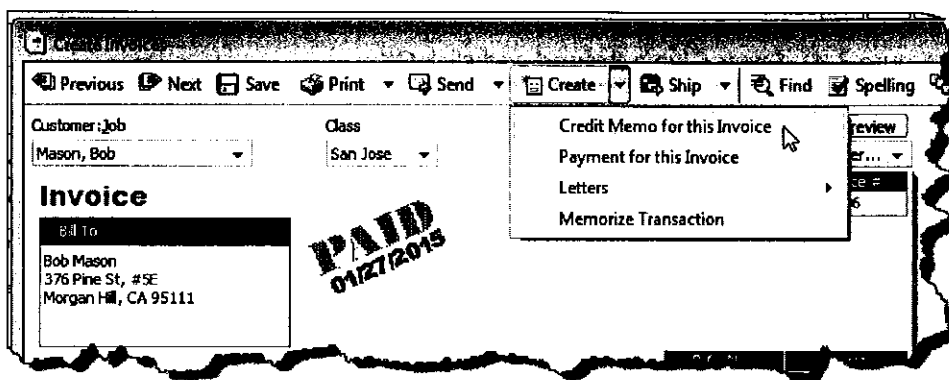


Figure 3-2 Create button in Create Invoices window

Step 5. A *Credit Memo* opens with the information from the previous *Invoice* (see Figure 3-3).

Credit Memos look similar to *Invoices*, but they perform the opposite function. That is, a *Credit Memo* reduces (debits) Sales, reduces (credits) Accounts Receivable, and in some cases reduces Sales Tax Payable. If Inventory is involved, a *Credit Memo* increases (debits) the Inventory asset and reduces (credits) the Cost of Goods Sold account.

Step 6. Press **Tab** four times to move to the *Date* field and enter **2/15/2015**. Press **Tab**.

Step 7. Enter **2015-106C** in the *Credit No.* field. Press **Tab** three times.

This credit transaction is included on statements and customer reports, so using the *Invoice* number followed by a "C" in the *Credit No.* field helps identify which *Invoice* this *Credit Memo* should apply to.

Step 8. Leave *Indoor Photo Session* in the *Item* field and tab to the *Qty* field. Change the *Qty* to **1**. Press **Tab** three times.

Step 9. Press **Ctrl+Delete** to remove the *Standard Photo Package* from the *Credit Memo*.

Step 10. Add *Refunded – 1 Hr Photo Session* to the *Memo* field.

Step 11. Make sure your screen matches Figure 3-3. When done press **Save & New**.

Customer: Job: Mason, Bob; Class: San Jose

Credit Memo

Customer: Bob Mason, 376 Pine St, #5E, Morgan Hill, CA 95111

Date: 02/15/2015; Credit No.: 2015-106C

Item	Description	Tax	Qty	Rate	Amount
Indoor Photo Session	Indoor Studio Session	Non	1	95.00	95.00
Customer Message	Thank you for your business.	Tax: Santa Clara (8.25%)		0.00	
Total					95.00

Remaining Credit: 95.00

Memo: Refunded - 1 Hr Photo Session

Buttons: Save & Close, Save & New, Clear

Recent Transactions:

Date	Description	Amount
01/27/15	Payment	
01/27/15	Payment	
01/26/15	Invoice - Paid	249.54
01/09/15	Invoice	776.47
12/18/14	Invoice - Paid	401.39

Notes: Edit

Figure 3-3 Use this data for the Credit Memo for Bob Mason

- Step 12. After you save the *Credit Memo*, QuickBooks displays the *Available Credits* window (see Figure 3-4). Select **Give a Refund** and click **OK**.

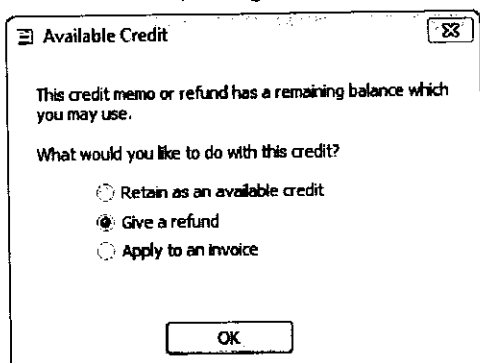


Figure 3-4 Give a refund option in Available Credit window

- Step 13. QuickBooks opens the *Issue a Refund* window (see Figure 3-5). Most of the information is already filled in. Enter **Refunded – 1 Hr Photo Session** in the *Memo* field. Click **OK** to record the refund check.

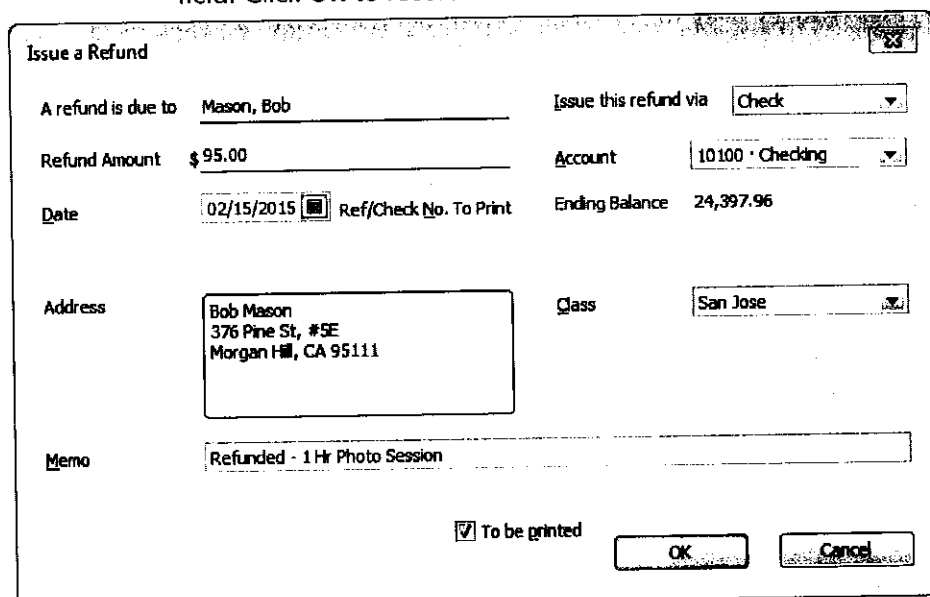


Figure 3-5 Issue a Refund for Photo Session

- Step 14. When you click **OK**, QuickBooks creates the refund check in the checking account and records the *Credit Memo*.
- Step 15. To redisplay the *Credit Memo*, click the **Previous** button in the *Credit Memo* window (see Figure 3-6).

Credit Memo

Customer: Bob Mason
376 Pine St, #5E
Morgan Hill, CA 95111

Class: San Jose

Date: 02/15/2015
Credit No.: 2015-106C

REFUNDED

Item	Description	Tax	Qty	Rate	Amount
Indoor Photo Session	Indoor Studio Session	Non	1	95.00	95.00
Tax (Santa Clara) (8.25%)					0.00
Total					95.00

Customer Message: Thank you for your business.

Remaining Credit: 0.00

Buttons: Save & Close, Save & New, Revert

Recent Transactions:

Date	Description	Amount
02/15/15	Credit Memo	95.00
01/27/15	Payment	401.39
01/27/15	Payment	244.54
01/26/15	Invoice - Paid	249.54
01/09/15	Invoice	776.47

Figure 3-6 Credit Memo after the refund

- Step 16. Close the *Credit Memo* window. Close the *Invoice* window.
- Step 17. Although you will not do it now, this is when you would print the refund check.

Writing Off a Bad Debt

If an *Invoice* becomes uncollectible, you'll need to write off the debt. If you use the cash basis of accounting, the uncollectible *Invoice* has not yet been recognized as income on your *Profit & Loss* report, and therefore, you *could* simply delete the *Invoice* to remove it from your records. However, good accounting practice dictates that you enter a new entry to credit the customer balance and reverse the sale (and the sales tax if appropriate).

To properly write off the bad debt, use a *Credit Memo* and a *Bad Debt* Item as shown in the following practice. In the "Customizing QuickBooks" chapter, you'll learn more about Items, but for now, we'll set up a *Bad Debt* Item in the sample file.

COMPUTER PRACTICE

- Step 1. From the *List* menu select **Item List**.
- Step 2. Press **Ctrl+N** to display the *New Item* window.
- Step 3. If the *New Feature* window displays, click **OK** to bypass this window.
- Step 4. Create an *Other Charge* Item called **Bad Debt** as shown in Figure 3-7. Link the *Bad Debt* Item to the Bad Debts expense account. Click **OK**.

New Item

Type: Other Charge (Use for miscellaneous labor, material, or part charges, such as delivery charges, setup fees, and service charges.)

Item Name/Number: Bad Debt (Subitem of:)

☐ This item is used in assemblies or is a reimbursable charge

Description: Bad Debt Write Off

Amount or %: 0.00

Tax Code: Tax

Account: 60300 - Bad Debts

☐ Item is inactive

Buttons: OK, Cancel, Next, Notes, Custom Fields, Spelling

Callout: Enter the Bad Debts expense account in this field.

Figure 3-7 Bad Debt Other Charge Item

Step 5. Select **OK** to close the *Item List*.

Step 6. From the *Home* page select **Refunds & Credits**. This opens a *Credit Memo*. Alternatively, you could open the *Invoice* and create a *Credit Memo* from the *Create* button.

Create Credit Memos/Refunds

Customer:Job: Anderson Wedding Planners: Kumar, Sati and Naveen

Class: San Jose

Template: Print Preview

Date: 02/20/2015

Credit To: 4003C

P.O. No.:

Credit Memo

Item	Description	Tax	Qty	Rate	Amount
Bad Debt	Bad Debt Write Off	Non	1	190.00	190.00
Tax: Santa Clara (8.25%)					0.00
Total					190.00

Customer Message:

☒ To be printed ☐ To be e-mailed Customer Tax Code: Tax

Remaining Credit: 190.00

Memo: Write Off Invoice #4003

Buttons: Save & Close, Save & New, Clear

Notes: Need to order window 1 week before project. Confirm with customer.

Callout: If you're writing off a sale of taxable items, use a taxable Sales Tax Code here.

Figure 3-8 Write off a bad debt with a Credit Memo

Step 7. Fill out the **Credit Memo** as shown in Figure 3-8. Choose **Anderson Wedding Planners: Kumar, Sati and Naveen** in the *Customer:Job* field.

Step 8. QuickBooks displays a warning message because *Invoices* and *Credit Memos* normally increase or decrease Income accounts, rather than Expense accounts (see Figure 3-9). Click **OK**.

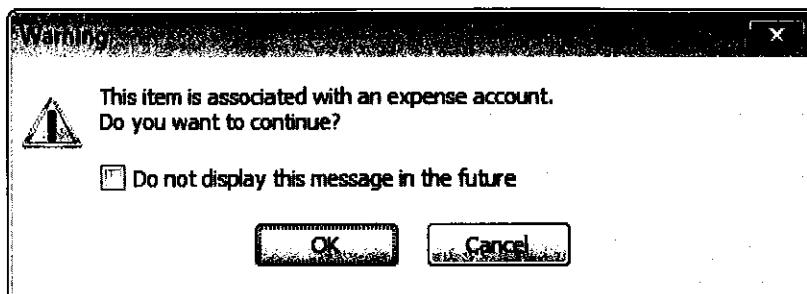


Figure 3-9 Warning about the Bad Debt Item pointing to an expense account

Note:

Under many circumstances, your Bad Debt write-off should not affect sales tax. However, if the sale you are writing off does need to affect your sales tax liability, you'll need to use two lines on the credit memo.

On the first line of the *Credit Memo*, use the **Bad Debt** Item and enter the total of all taxable items in the sale (not including the sales tax) in the *Amount* column. Select **Tax** (or the appropriate Code) in the *Tax Code* column. QuickBooks will calculate the sales tax and reduce your liability by that amount.

On the second line, use the same **Bad Debt** Item and enter the total of the non-taxable items from the original *Invoice*, including any shipping or miscellaneous charges (excluding sales tax). Select a non-taxable *Tax Code* for this line.

- Step 9. Click **Save & Close** to record the *Credit Memo*. The *Available Credit* window (see Figure 3-10) will be displayed. Select **Apply to an Invoice** option and click **OK**.

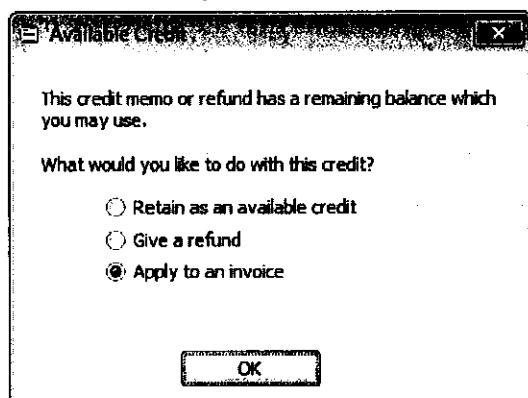


Figure 3-10 Apply to an Invoice option on Available Credit window

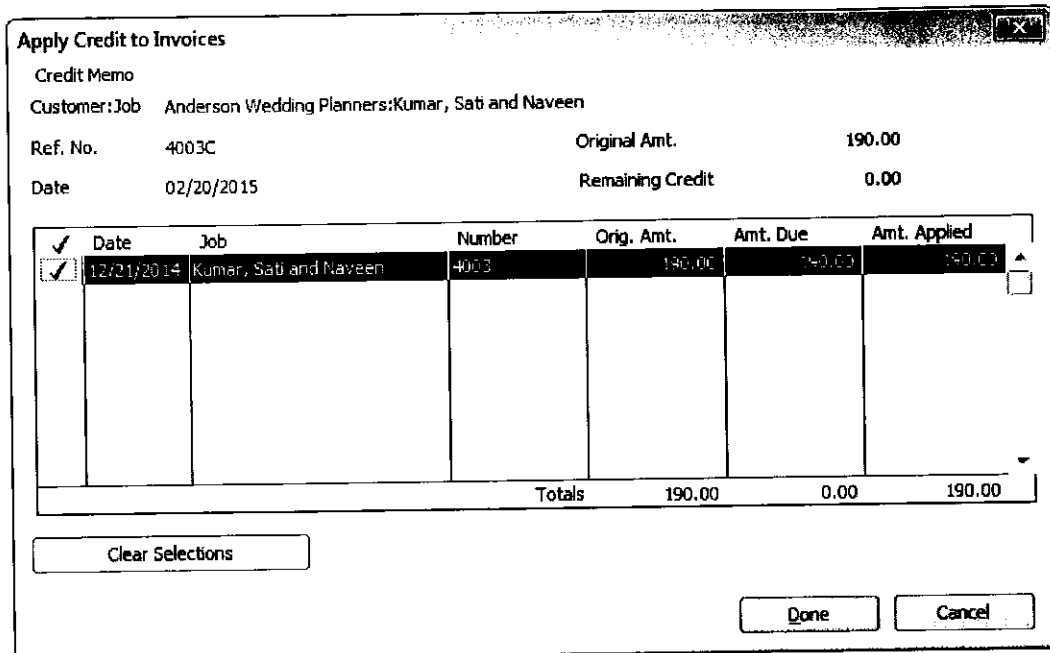
The accounting behind the scenes:

When you use the Bad Debt Item on a *Credit Memo*, the *Credit Memo* decreases (credit) Accounts Receivable and increases (debit) Bad Debts expense.

Applying the Bad Debt Credit Memo to an Open Invoice

COMPUTER PRACTICE

- Step 1. The *Apply Credit to Invoices* window is automatically displayed with Invoice #4003 **Check** (✓) column checked (see Figure 3-11).



Apply Credit to Invoices

Credit Memo
 Customer: Job Anderson Wedding Planners:Kumar, Sati and Naveen
 Ref. No. 4003C Original Amt. 190.00
 Date 02/20/2015 Remaining Credit 0.00

<input checked="" type="checkbox"/>	Date	Job	Number	Orig. Amt.	Amt. Due	Amt. Applied
<input checked="" type="checkbox"/>	12/21/2014	Kumar, Sati and Naveen	4003	190.00	190.00	190.00
Totals				190.00	0.00	190.00

Clear Selections

Done Cancel

Figure 3-11 Apply Credit to Invoices window

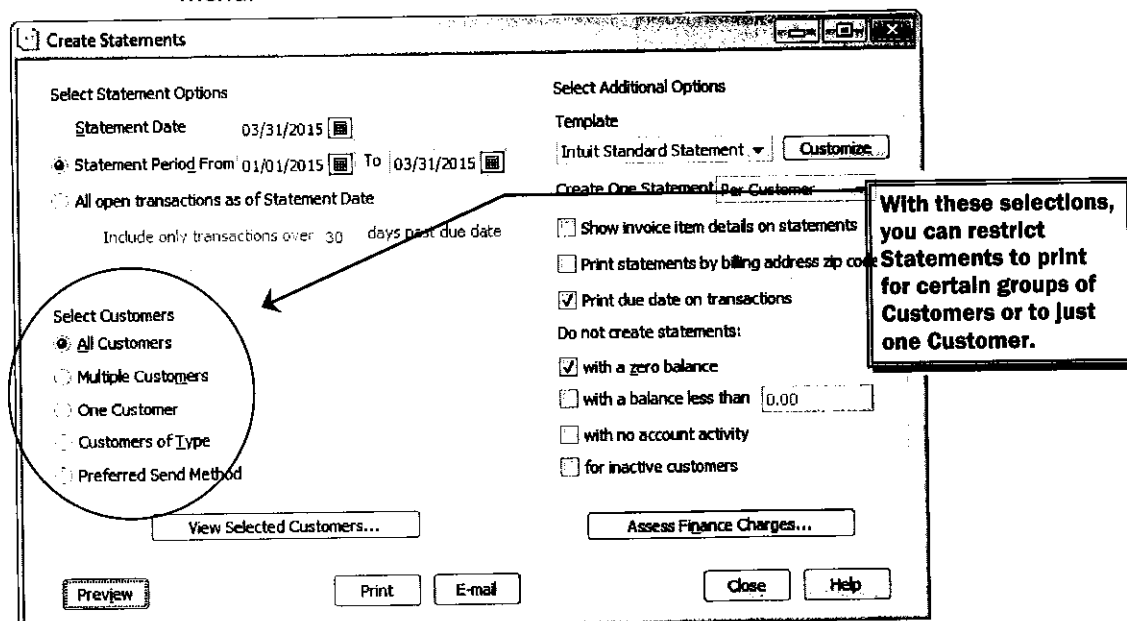
Step 2. Click **Done** to apply the bad debt to the selected *Invoice*.

Creating Customer Statements

QuickBooks Customer *Statements* provide a summary of the activity for an accounts receivable Customer during the period you specify. When you create *Statements*, you can show either all of the Customer's accounts receivable activity or just the transactions that are currently open.

COMPUTER PRACTICE

Step 1. From the *Home* page click the **Statements** icon to open the *Create Statements* window (see Figure 3-12). Alternatively, click **Create Statements** from the *Customers* menu.



Create Statements

Select Statement Options
 Statement Date 03/31/2015
 Statement Period From 01/01/2015 To 03/31/2015
☒ All open transactions as of Statement Date
 Include only transactions over 30 days past due date

Select Additional Options
 Template Inbuilt Standard Statement Customize
 Create One Statement Per Customer
☐ Show invoice item details on statements
☐ Print statements by billing address zip code
☒ Print due date on transactions
 Do not create statements:
☒ with a zero balance
☐ with a balance less than 0.00
☐ with no account activity
☐ for inactive customers

Select Customers
☒ All Customers
☐ Multiple Customers
☐ One Customer
☐ Customers of Type
☐ Preferred Send Method

View Selected Customers... Assess Finance Charges...

Preview Print E-mail Close Help

With these selections, you can restrict Statements to print for certain groups of Customers or to just one Customer.

Figure 3-12 Create Statements window

- Step 2. Enter **03/31/2015** in the *Statement Date* field.
- Step 3. Set the *Statement Period From* and *To* fields to **1/1/2015** and **3/31/2015** respectively.

You need to include a *Statement Date* and a *Statement Period* because the *Statement Date* is the "current" date that will appear on the *Statement*, while *Statement Period* dates include the period for which accounts receivable transactions will show on the *Statement*.

- Step 4. Leave **All Customers** selected in the *Select Customers* section.

Note:

If you want to print only the open *Invoices* for each Customer, select **All open transactions as of Statement Date** at the top left of the *Create Statements* window. If you want to show the detail from the *Invoice*, make sure the *Show invoice item details on statements* option is selected.

- Step 5. Leave **Per Customer** selected in the *Create One Statement* drop-down list.
- Step 6. Check the **with a zero balance** box in the *Do not create statements* section.
- Step 7. Click **Preview**.
- Step 8. After previewing the three pages of statements in the *Print Preview* window (see Figure 3-13), click the **Close** button.

Print Preview -- Page 1 of 3

Print Prev page Next page Zoom Out Help Close

Statement

Academy Photography Revenue Chapter
123 Main Street
Pleasanton, CA 94566

Date
3/31/2015

To:
Maria Cruz
123 First Street
Walnut Creek, CA 94596

Preview your Statements before printing them so you can verify that your settings (dates, etc.) are correct.

Date	Transaction	Amount Due	Amount	Balance
		\$500.00		
12/31/2014	Balance forward			0.00
01/05/2015	Branch Opening			
01/06/2015	INV #2015-101. Due 02/04/2015. 4 Hr Outdoor Session, 2 Hr Retouching	570.00	570.00	570.00
01/13/2015	INV #2015-102. Due 02/05/2015. 4 Hrs Additional Photographer	500.00	500.00	1,070.00
01/26/2015	INV #2015-105. Due 02/12/2015. 4 Hr Indoor Session and Photographer	880.00	880.00	1,950.00
01/27/2015	INV #2015-107. Due 02/25/2015. 4 Cameras, Lens	3,365.44	3,365.44	5,315.44
02/15/2015	PMT Received Payment - Multiple Invoices	-1,930.00	-1,930.00	3,385.44
02/16/2015	CREDMEM #2015-107C. Cancel Order of 4 Cameras, 1 Lens	-3,054.54	-3,054.54	310.90
	CC REFUND #1. Refunded - 2 Hr Photo Session	190.00	190.00	500.90

Figure 3-13 Preview your statements before printing

Collecting Sales Tax

If you sell products and certain types of services, chances are you will need to collect and remit sales tax. In many states, aside from the state tax, each county or city may impose an additional tax that businesses are required to track and report.

If you sell non-taxable goods and services, or if you sell to customers that are exempt from paying sales tax, your state will probably require a breakdown of non-taxable sales and the reason sales tax was not imposed.

These differing conditions may not apply in all jurisdictions, but QuickBooks allows you to track sales tax for all of these different situations. If you are not familiar with the sales tax rates or reporting requirements in your area, consult your state agency, your local QuickBooks ProAdvisor, or accountant for guidance.

Setting up Sales Tax

You must set up your Sales Tax Preferences before using the Sales Tax feature in QuickBooks.

COMPUTER PRACTICE

- Step 1. Click the **Manage Sales Tax** button on the *Home Page*. Or you can choose **Manage Sales Tax** from the *Sales Tax* option on the *Vendors* menu.
- Step 2. The *Manage Sales Tax* dialog box will appear (see Figure 3-14).
- Step 3. Click the **Sales Tax Preferences** button in the *Get Started* section. Alternatively, you could select **Preferences** from the *Edit* menu, then select the *Sales Tax Company Preferences*.

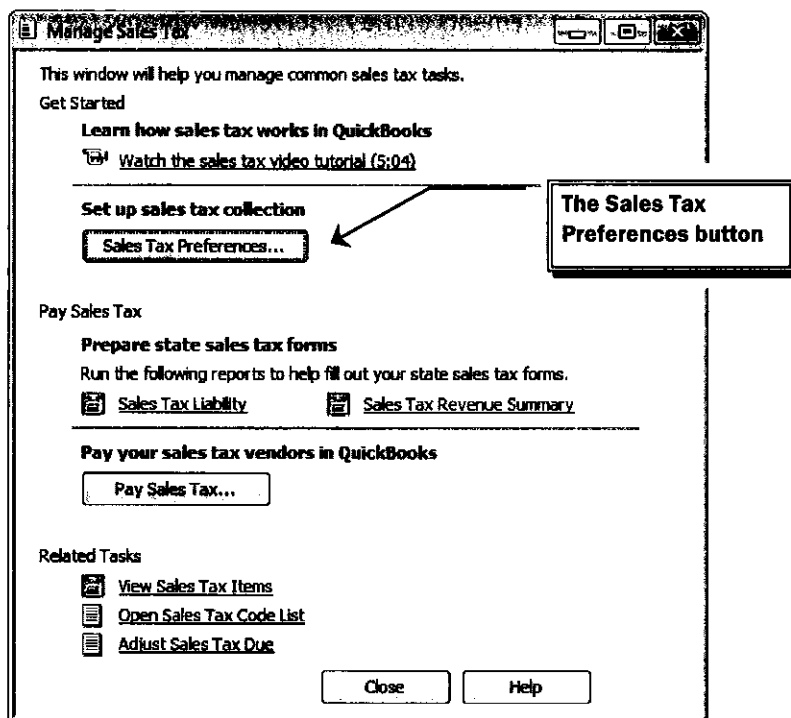


Figure 3-14 The Manage Sales Tax Dialog Box

- Step 4. The *Sales Tax Company Preferences* dialog box appears.

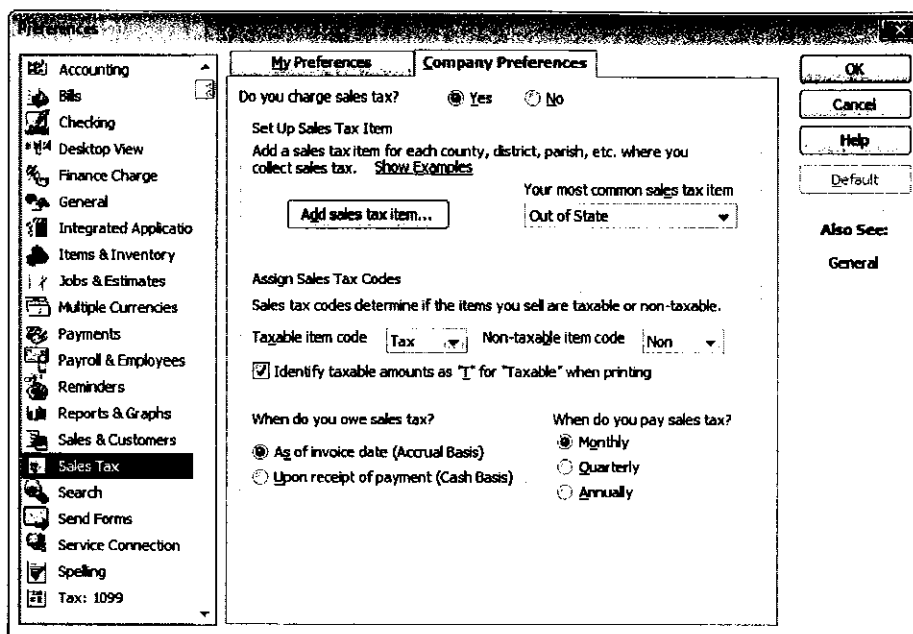
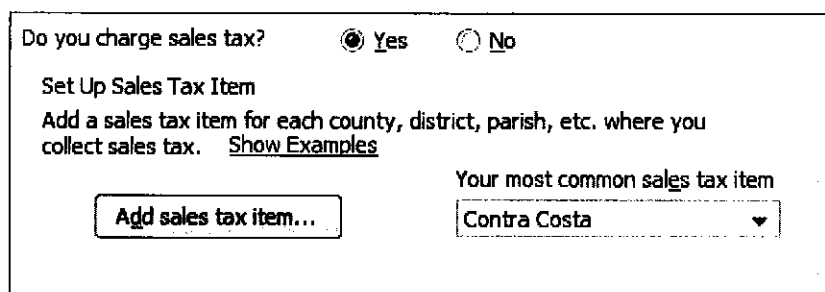


Figure 3-15 Sales Tax Company Preferences

- Step 5. Leave **Yes** selected in the *Do you charge sales tax?* section.
- Step 6. In the *Set Up Sales Tax Items* section, notice *Out of State* is selected in the *Your most common sales tax item* field. Change this field to **Contra Costa** (see Figure 3-16).

Note:

The sales tax item listed in the *Your most common sales tax item* field becomes the default sales tax item on new customer records, as well as on *Sales Receipts* and *Invoices*.

Figure 3-16 Select the *Your most common sales tax item* you use on sales forms

- Step 7. In the *Assign Sales Tax Codes* section, **Tax** is the default code in the *Taxable item code* field and **Non** is the default for the *Non-taxable item code* field. For more information about *Sales Tax Codes*, see page 85.
- Step 8. Review the remaining Preferences. When finished, click **OK** to save your changes and then **Close** to close the *Manage Sales Tax* window.

Sales Tax Items

Sales Tax Items are used on sales forms to calculate the amount of sales tax due on each sale. You can view the *Sales Tax Item* on the bottom of the form, separately from the rest of the *Items* (see Figure 3-17).

Create Invoices

Customer: Job
Cruz, Maria: Branch Open...

Class: Walnut C...

Template: Academy Photo Ser...

Date: 01/26/2015 Invoice #: 2015-107

Invoice

Bill To
Maria Cruz
123 First Street
Walnut Creek, CA 94596

P.O. No. Terms: 2% 10 Net...

Item	Quantity	Description	Rate	Amount	Class	Tax
Camera SR32	4	Supra Digital Camera SR32	695.99	2,783.96	Walnut Creek	Tax
Lens	1	Supra Zoom Lens	324.99	324.99	Walnut Creek	Tax
Customer Tax			Contra Costa (8.25%)	256.49		
Total				3,365.44		

Payments Applied: 0.00
Balance Due: 3,365.44

Memo: 4 Cameras, Lens

Buttons: Save & Close, Save & New, Revert

The Sales Tax Item calculates the tax for this sale.

Figure 3-17 Invoice using the "Santa Clara" Sales Tax Item

To set up your Sales Tax Items, follow these steps:

COMPUTER PRACTICE

- Step 1. Select the *Lists* menu and then select **Item List**. Alternatively, click the **Items & Services** icon on the *Home* page.
- Step 2. To add a new Item, select the **Item** button at the bottom of the *Item List* and then select **New**. If you get a *New Feature* window, you may read it for information, but click **OK** to bypass it for now.
- Step 3. Select **Sales Tax Item** in the *Type* drop-down list and press **Tab**.
- Step 4. Enter the *Tax Name*, *Description*, *Tax Rate*, and *Tax Agency*, as shown in Figure 3-18. This item will track all sales activity (taxable and nontaxable) for Alameda County and will charge each customer 8.75% in sales tax. The sales taxes collected using the *Alameda Sales Tax Item* will increase the amount due to the *State Board of Equalization*.

New Item

Type: Sales Tax Item

Use to calculate a single sales tax at a specific rate that you pay to a single tax agency.

Sales Tax Name: Alameda

Description: Alameda Sales Tax

Tax Rate (%): 8.75%

Tax Agency (vendor that you collect for): State Board of Equalization

Buttons: OK, Cancel, Next, Spelling

Item is inactive

Figure 3-18 Setting up a Sales Tax item

Step 5. Click **OK** to save the Item.

The accounting behind the scenes:

Sales Tax Items automatically calculates the sales tax on each sales form by applying the sales tax rate to all taxable items on that sale. QuickBooks increases (credits) Sales Tax Payable for the amount of sales tax on the sale. Also, QuickBooks tracks the amount due (debits) by *Tax Agency* in the *Sales Tax Liability* report and in the *Pay Sales Tax* window.

Your sample file includes three additional *Sales Tax Items* for tracking sales in *Contra Costa* and *Santa Clara* counties, as well as *Out of State* sales. After you add the *Alameda Sales Tax Item*, your Item list will look like Figure 3-19.

Name	Description	Type	Account	Total Quantity On Hand	On Sales Order	Price	Attach
• Indoor Photo Session	Indoor Studio Session	Service	40000 • Services			95.00	
• Outdoor Photo Session	Outdoor Photo Session	Service	40000 • Services			95.00	
• Photographer	Photographer	Service	40000 • Services			125.00	
• Retouching	Photo retouching services	Service	40000 • Services			95.00	
• Camera SR32	Supra Digital Camera SR32	Inventory Part	45000 • Sales				
• Case	Canon SLR camera high impact case	Inventory Part	45000 • Sales				
• Frame Six7	Picture Frame - 5' x 7' Metal Frame	Inventory Part	45000 • Sales				
• Lens	Supra Zoom Lens	Inventory Part	45000 • Sales				
• Film 36C	200 ASA, 36 Color Film	Non-inventory Part	45000 • Sales				
• Premium Photo Package	Premium Package of Photography from Session	Non-inventory Part	45000 • Sales				
• Standard Photo Package	Standard Package of Photography from Session	Non-inventory Part	45000 • Sales				
• Bad Debt	Bad Debt - Write off	Other Charge	60300 • Bad Debts				
• Return Check Fee	Return Check Fee	Other Charge	45000 • Sales				
• Alameda	Alameda Sales Tax	Sales Tax Item	25500 • Sales Tax Payable				
• Contra Costa	Contra Costa County Sales Tax	Sales Tax Item	25500 • Sales Tax Payable				
• Out of State	Out-of-state sale, exempt from sales tax	Sales Tax Item	25500 • Sales Tax Payable				
• Santa Clara	Santa Clara County Sales Tax	Sales Tax Item	25500 • Sales Tax Payable				

Figure 3-19 Item list

Note:

If you remit sales tax to **only one agency** (e.g., California's State Board of Equalization) but you collect sales tax in several different counties or cities, create a separate *Sales Tax Item* for each taxable location in which you sell products. This allows you to track different sales tax rates for each locale.

Note:

If you pay sales tax to **more than one agency**, you should use *Sales Tax Groups* to combine several different Sales Tax Items into a group tax rate.

Sales Tax Codes

Sales Tax Codes are an additional classification for calculating and reporting sales tax. A Sales Tax Code is assigned to each product or service Item, as well as to each Customer.

Sales Tax Codes serve two purposes. First, Sales Tax Codes indicate whether a specific product or service is taxable or non-taxable. Secondly, Sales Tax Codes categorize revenue based on the reason you charged or did not charge sales tax.

If your sales tax agency requires reporting for different types of tax-exempt sales, you may wish to create several non-taxable Sales Tax Codes for each type of non-taxable sale (e.g., RSR for non-taxable resellers).

Using Sales Tax Codes on Sales Forms

If you use a taxable *Sales Tax Code* in the *Customer Tax Code* field on sales forms, QuickBooks will apply sales tax (see Figure 3-20). If you use a non-taxable *Sales Tax Code*, QuickBooks will not apply sales tax unless you override the sales tax code (to a taxable code) on one of the lines in the body of the form.

Create Invoices

Customer: Job
Feng, Tim

Class
San Jose

Template
Academy Photo Ser...

Date
01/29/2015

Invoice #
2015-106

Invoice

Bill To
Tim Feng
300 Main St, Suite 3
San Jose, CA 95111

Item **Quantity** **Description** **Rate** **Amount** **Class** **Tax**

Indoor Photo Session	1	Indoor Studio Session	95.00	95.00	San Jose	Non
Premium Photo Package	2	Premium Package of Photography from Session	85.00	170.00	San Jose	Tax
Frame 5x7	2	Picture Frame - 5 x 7 Metal Frame	5.99	11.98	San Jose	Tax

Customer Message: Thank you for your business.

Tax: Santa Clara (8.25%) 15.01

Total: 291.99

Payments Applied: 0.00
Balance Due: 291.99

Customer Tax Code: Tax

Memo: Indoor Session, 2 Premium Packages

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Save & Close Save & New Revert

This Tax Sales Tax Code shows that the Premium Photo Package Inventory Part is a taxable item.

This Tax Sales Tax Code indicates that Tim Feng is a taxable customer, so taxable items will be used to calculate and charge sales tax.

Figure 3-20 Invoice with taxable items

When you set up a Customer record, the *Sales Tax Code* you enter in the Customer record becomes the default in the *Customer Tax Code* field on sales forms.

Similarly, when you set up Items, the *Sales Tax Code* you enter in the Item record becomes the default Tax Code in the body of sales forms.

You can override the *Sales Tax Code* at the bottom of sales forms by using the *Customer Tax Code* drop-down list, or on each line in the body of the Invoice.

Setting up Sales Tax Codes

COMPUTER PRACTICE

One of your customers, Miranda's Corner, purchases various frames from Academy Photography to resell to her customers, and therefore does not pay sales tax.

- Step 1. From the *Lists* menu select **Sales Tax Code List**. QuickBooks displays the *Sales Tax Code List* window (see Figure 3-21).

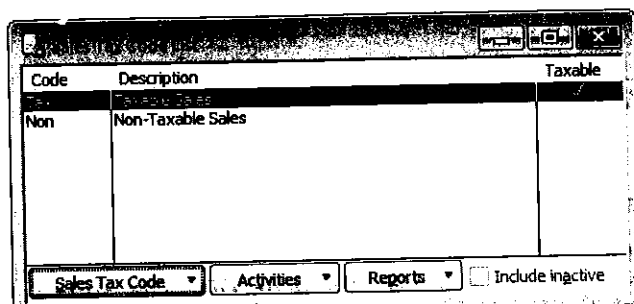
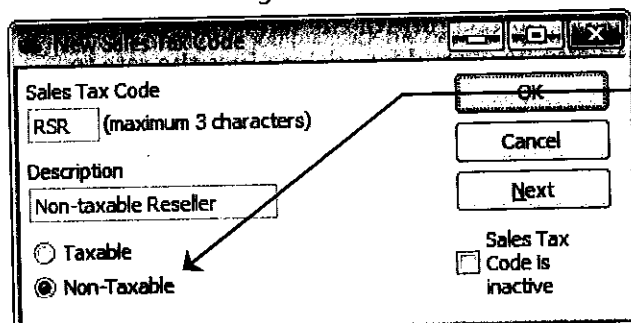


Figure 3-21 Sales Tax Code List

- Step 2. This file already has two *Sales Tax Codes* (Tax and Non). To create a new *Sales Tax Code*, select **New** from the *Sales Tax Code* button at the bottom of the window.
- Step 3. Enter the information shown in Figure 3-22. This creates a Sales Tax Code for tracking customers who do not pay sales tax because they are resellers.



QuickBooks will not charge the Customer sales tax when you use a Non-Taxable Sales Tax Code on Invoices and Sales Receipts.

Figure 3-22 Edit Sales Tax Code window

- Step 4. Click OK to save this Sales Tax Code.
- Step 5. Close the *Sales Tax Code List* window.
- Step 6. Open the *Customer Center*. Double click **Miranda's Corner** in the *Customer Center*. If you get a *New Feature* window, you may read it for information, but click **OK** to bypass it for now.
- Step 7. In the *Edit Customer* window, click on the **Additional Info** tab.
- Step 8. Select **RSR** from the *Tax Code* field in the *Sales Tax Information* section (see Figure 3-23).

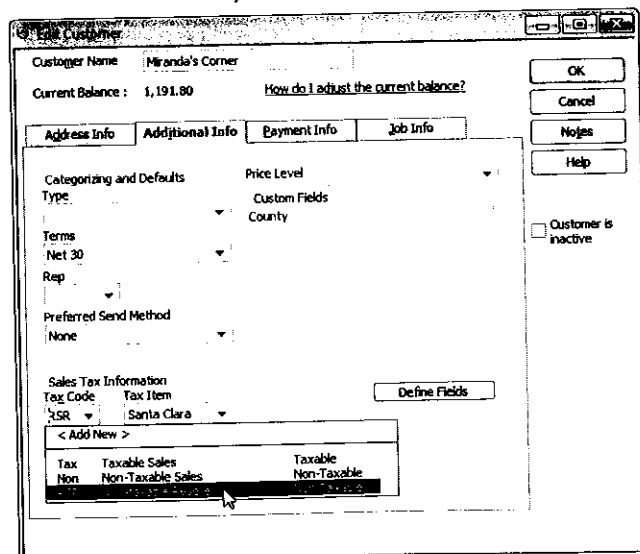


Figure 3-23 Changing the Customer Sales Tax Code

Step 9. Click **OK** to close the *Edit Customer* window. Close the *Customer Center*.

Calculating Sales Tax on Sales Forms

When you properly set up your QuickBooks *Items*, *Customers*, *Sales Tax Codes*, and *Preferences*, QuickBooks automatically calculates and tracks sales tax on each sale.

As illustrated in Figure 3-24 and detailed in the steps above, each line on a sale shows a separate *Item* that is taxed according to the combination of how the *Item*, *Tax Code*, and *Customer* are set up. When you set up *Items*, you indicate which *Sales Tax Code* normally applies to that *Item*. In addition, when you set up a *Customer* record, you indicate the *Sales Tax Item* and *Sales Tax Code* to be used for that *Customer*.

Then, when you create a sale (*Invoice* or *Sales Receipt*), the *Customer Tax Code* and the *Sales Tax Item* are taken from the *Customer's* record and filled into the *Customer Tax Code* and *Tax* fields on the form. A non-taxable *Customer Tax Code* overrides the taxable *Tax Code* on each line item. If necessary, you can override the *Tax Code* on each line of the sales form or at the bottom of the form. The *Tax Item*, which can also be overridden, determines the rate to charge on the sum of all taxable line items on the sale.

Calculating Sales Tax in QuickBooks

Tax Codes for each line. Codes come from item setup, overridden by Customer Tax Code below. Can be overridden on each line.

Item	Quantity	Description	Rate	Amount	Class	Tax
Indoor Photo Session	2	Indoor Studio Session	95.00	190.00	San Jose	Non
Standard Photo Package	1	Standard Package of Photography from Session	55.00	55.00	San Jose	Tax

Customer Message: Thank you for your business.

Tax: Santa Clara (8.25%) 4.54

Total: 249.54

Payments Applied: 0.00

Balance Due: 249.81

Customer Tax Code (comes from customer record) can be overridden here. Sets the defaults for tax code on each line of sale.

Tax Item for the Sale (comes from customer record) can be overridden here.

Sales Tax Charged. Calculated by multiplying Tax Item's rate by the sum of each taxable line on sale.

Figure 3-24 Calculating Sales Tax in QuickBooks

For more on paying the collected sales tax, see 131.

Creating Sales Reports

In this section, you'll learn how to create reports that will help you analyze your company's sales.

Customer Open Balance Report

You can create a *Customer Open Balance* report to view the open *Invoices* and the *Credit Memo* for this customer.

- Step 1. If necessary, display the **Customer Center** and then select **Cruz, Maria: Branch Opening** as shown in Figure 3-25.
- Step 2. Under the *Reports for this Job* section, select the **Open Balance** link (see Figure 3-25). You may need to expand the window to see the Reports section.

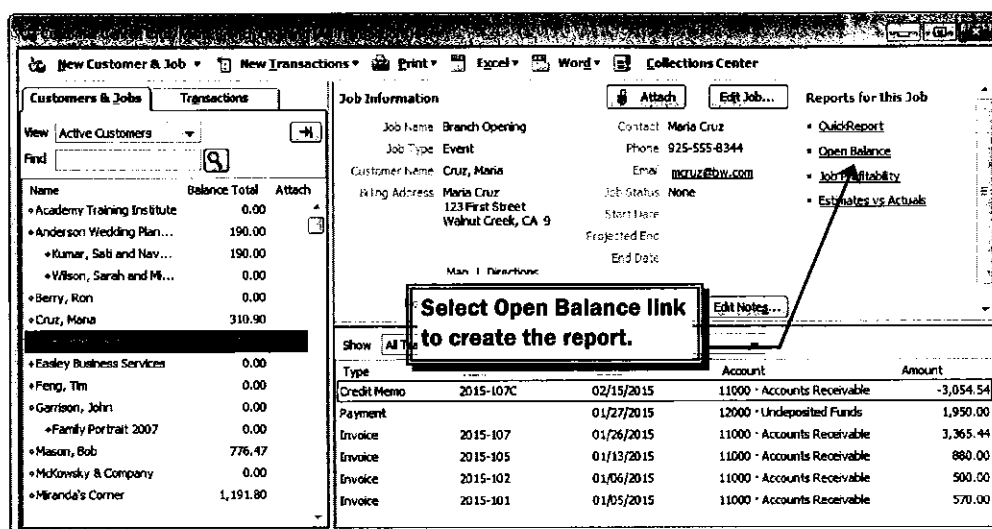


Figure 3-25 Select the job and click the needed report in the Customer Center

Step 3. The *Customer Open Balance* report opens (see Figure 3-26).

Step 4. Click the Close Window button (X) at the top right of the window to close the report or press **Esc** to close the window.

The screenshot shows the 'Customer Open Balance' report window. The title bar says 'Customer Open Balance'. Below the title bar, there are buttons for 'Customize Report', 'Share Template', 'Memorize', 'Print', 'E-mail', 'Excel', 'Hide Header', and 'Refresh'. Below these buttons, there are fields for 'Dates', 'All', 'From', 'To', and 'Sort By Default'. The main content area shows the report title 'Academy Photography Revenue Chapter Customer Open Balance' and 'All Transactions'. Below this, there's a table with columns: Type, Date, Num, Memo, Due Date, Open Balance, and Amount. The table shows transactions for 'Cruz, Maria' and a total of 3,365.44.

Type	Date	Num	Memo	Due Date	Open Balance	Amount
Cruz, Maria						
Branch Opening						
Invoice	01/26/2015	2015-107	4 Cameras, Lens	02/25/2015	3,365.44	3,365.44
Total Branch Opening					3,365.44	3,365.44
Total Cruz, Maria					3,365.44	3,365.44
TOTAL					3,365.44	3,365.44

Figure 3-26 Customer Open Balance report

Sales by Customer Summary Report

The *Sales by Customer Summary* report shows how much you have sold to each of your customers over a given date range.

COMPUTER PRACTICE

To create this report, follow these steps:

- Step 1. From the *Report Center* select **Sales** from the category list and then double click the *Sales by Customer Summary* report in the *Sales by Customer* section.
- Step 2. Enter **01/1/2015** in the *From* date field and then press **Tab**.
- Step 3. Enter **2/28/2015** in the *To* date field and then press **Tab**.

Figure 3-27 shows the *Sales by Customer Summary* report for the first two months of 2015.

Step 4. To print the report, click **Print** at the top of the report.

Academy Photography Revenue Chapter	
Sales by Customer Summary	
Accrual Basis January through February 2015	
◇ Jan - Feb 15 ◇	
Anderson Wedding Planners	
Kumar, Sati and Naveen	-190.00
Total Anderson Wedding Planners	-190.00
Cruz, Maria	
Branch Opening	5,058.95
Total Cruz, Maria	5,058.95
Mason, Bob	917.97
Miranda's Corner	1,100.97
Perez, Jerry	265.00
TOTAL	7,152.89

Figure 3-27 Sales by Customer Summary report

Step 5. Close the *Sales by Customer Summary* report. If the *Memorize Report* dialog box opens, click **No** (see Figure 3-28).

Memorize Report

You have modified the settings for this report. Adding this report to the Memorized Report List will save these settings for future use.

Would you like to memorize this report?

☐ Do not display this message in the future

Yes No Cancel

Figure 3-28 Memorize Report dialog box

Sales by Item Report

The *Sales by Item* report shows how much you have sold of each Item over a given date range. To create this report, follow these steps:

COMPUTER PRACTICE

- Step 1. From the *Report Center* select **Sales** from the category list and then double click the **Sales by Item Summary** sample in the *Sales by Item* section. You may need to scroll down.
- Step 2. Enter **1/1/2015** in the *From* date field and then press **Tab**.
- Step 3. Enter **2/28/2015** in the *To* date field and then press **Tab**.

Figure 3-29 shows the *Sales by Item Summary* report for the first two months of 2015.

Step 4. To print the report, click **Print** at the top of the report.

Academy Photography Revenue Chapter
Sales by Item Summary
 January through February 2015
 Jan - Feb 15

	Qty	Amount	% of Sales	Avg Price	COGS	Avg COGS	Gross Margin	Gross Margin %
Inventory								
Camera SR02	5	3,479.95	46.7%	695.99	2,250.00	450.00	1,229.95	35.3%
Case	1	79.99	1.1%	79.99	45.00	45.00	34.99	43.7%
Frame 5x7	3	17.97	0.3%	5.99	8.45	2.15	11.52	64.1%
Lens	2	549.98	9.1%	324.99	369.98	184.99	200.00	43.1%
Total Inventory	11	4,227.89	59.1%	384.35	2,671.43	242.86	1,556.46	36.8%
Parts								
Premium Photo Package	3	255.00	3.5%	85.00				
Standard Photo Package	1	55.00	0.8%	55.00				
Total Parts	4	310.00	4.3%	77.50				
Service								
Indoor Photo Session	9	855.00	12%	95.00				
Outdoor Photo Session	4	380.00	5.3%	95.00				
Photographer	8	1,000.00	14%	125.00				
Retouching	6	570.00	8%	95.00				
Total Service	27	2,805.00	39.2%	103.89				
Other Charges								
Bad Debt	-1	-190.00	-2.7%	190.00				
Total Other Charges	-1	-190.00	-2.7%	190.00				
TOTAL	41	7,152.89	100.0%	174.48		86.16		

Figure 3-29 Your Sales by Item Summary report should look like this

Step 5. Close the *Sales by Item Summary* report. If the *Memorize Report* window opens, click **No**.

Review Questions

Select the best answer(s) for each of the following:

- Customer *Statements*:
 - Provide a summary of all accounts receivable activity for a Customer during the period you specify.
 - Are not available in QuickBooks.
 - Automatically assess and calculate finance charges for overdue accounts without any user action.
 - Should only be created and mailed if the Customer's balance is over \$500.
- Which of the following options is not available on the *Available Credit* window?
 - Give a refund.
 - Retain as an available credit.
 - Apply to an *Invoice*.
 - Use with *Receive Payments*.
- What is the best way to write off a bad debt?
 - Delete the original *Invoice*.
 - Create a *Credit Memo* using a *Bad Debt* Item and apply the credit to the past due *Invoice*.
 - Create a *Credit Memo* for the amount of the past due *Invoice* and retain the available credit.
 - Any of the above.
- In which of the following situations would you create a *Credit Memo*?

- a) You need to record a cancelled order that has already been invoiced but not paid.
 - b) A customer returns merchandise and wants the return credited to a future *Invoice*.
 - c) A customer requests a refund.
 - d) Any of the above.
5. The Credit Memo Number should be
- a) The next number after the *Credit Memo Number* on the last *Credit Memo*.
 - b) The next number after the *Invoice Number* on the last *Invoice*, followed by a "C."
 - c) Any unique number.
 - d) The same number as the *Invoice* to which the *Credit Memo* is linked, followed by a "C."

Revenue-Problem 1

EXTENDING YOUR KNOWLEDGE

Restore the **Revenue-12Problem1.QBM** file.

1. On Feb 7, 2015, create **Invoice #2015-108** to Morris Consulting. Use the Walnut Creek class, terms 2% 10, Net 30. (Note: Special terms apply to this *Invoice* only.) The customer purchased a 2 hour Indoor Photo Session (\$95 per hour) and 2 hours with a Photographer (\$125 per hour). Use the Out of State Sales Tax Item. The *Invoice* total is \$440.00. Print the *Invoice*.
2. On Feb 9, 2015, create **Invoice #2015-109** to Easley Business Services. Use the class San Jose. Terms are Net 30. The customer purchased 4 Camera (\$695.99), 4 Lens (\$324.99), and 4 Cases (\$79.99). Use the Out of State Sales Tax Item. The *Invoice* total is \$4,403.88. Print the *Invoice*.
3. On Feb 10, 2015, receive check #58621 in the amount of \$431.20 from Morris Consulting in full payment of Invoice #2015-108. He took a 2% discount of \$8.80. Use the Sales Discount account and the Walnut Creek class.
4. On Feb 15, 2015, Donald Easley of Easley Business Services called and gave his VISA credit card number to pay off the balance on his open Invoices. The payment amount was \$4,403.88; VISA #4444-3333-2222-1111; Exp. 05/2017.
5. On Feb 23, 2015, Morris Consulting requested a refund for two hours of Photographer services. Create **Credit Memo #2015-108C** and use the Walnut Creek class. Issue Morris Consulting a refund check.
6. On Feb 26, 2015, create a **Credit Memo** to write off Invoice 3696 to Ortega Services. You will need to create a Bad Debt item. Since Invoice 3696 included a taxable item, you will need to mark the Bad Debt item on the *Credit Memo* for the amount \$695.99 and mark it as taxable. Use the Walnut Creek class. The entire amount of the write-off is \$753.41.
7. On Feb 27, 2015, receive payment for **\$1,191.80** from Miranda's Corner in payment of Invoice #2015-103. She uses her VISA card number 7777-8888-9999-0000 expiration date 12/2015, to pay this *Invoice*.
8. On Feb 28, 2015, issue **Credit Memo #2015-103C** to Miranda's Corner for Invoice #2015-103. The customer returned 1 Camera (\$695.99). A 10% restocking fee applies. Use the San Jose class and the Santa Clara County sales tax. Issue a **refund** to Miranda's

Corner's VISA card on Credit Memo #2015-103C using the *Refunding Credit Cards* method discussed in the chapter. Total refund: **\$683.81**. Print the *Credit Memo* after the refund.

9. Deposit the check in the **Undeposited Funds** account on 2/28/2015. Total deposit amount is **\$431.20**. Print the **Deposit Slip and Deposit Summary**.
10. Deposit all VISA receipts on 2/28/15. Record a 2% **bankcard discount fee** (use QuickMath to calculate) on the credit card deposit. Total deposit amount is **\$4,813.63**. Print the **Deposit Summary Only**.
11. Print **Sales by Customer Summary** for January through February 2015.
12. Print **Sales by Item Summary** for January through February 2015.
13. Create and print customer *Statements* for the period of **February 1, 2015** through **February 28, 2015**. Print *Statements* for all customers who have a balance due: one for Anderson Weddings and one for Bob Mason.